WEEKLY ECONOMIC REVIEW

June 16, 2006

Global concerns about rsing inflation, a slowing U.S. economy and the U.S. Federal Reserve Board going too far with its interest rate increases haunted equity markets in the early part of the week. World major equity markets suffered corrections of about 10 per cent in the past few weeks and commodity prices fell. For example, gold prices fell over US$150/oz from its recent high of US$732 and crude oil prices dipped to US$68.56/bbl on June 13, 2006.

With corrections in commodities, the Canadian dollar slipped by close to two cents U.S. from 91 cents reached on June 12 and closed at 89.1 cents this week.

Inflation is picking up in the United States. U.S. core inflation rose by 0.3 per cent in May, a larger-than-expected increase for the third month in a row. The three-month annualized core inflation is running at 3.8 per cent, the highest since the mid-1990s. The higher inflation, combined with rising inflationary expectations (above 2 per cent) are seen to support a rate hike by the Federal Reserve Board on June 29, 2006.

America's current account deficit fell by 6.5 per cent to $208.7 billion in the first quarter of 2006 from a record $223.1 billion in the fourth quarter of 2005.

U.S. industrial output fell by 0.1 per cent in May, down sharply from a 0.8 per cent increase in April. This bolsters hopes that a weakening economy could prevent the Federal Reserve Board from raising rates much further.

Cdn Dollar (C¢/US$)

June 16, 2006	89.1¢
June 9, 2006	90.3¢
2006-07 YTD	89.2¢

WTI Oil SUS/bbl

June 15, 2006	$69.50
June 8, 2006	$70.35
2006-07 YTD	$70.65

Nymex Natural Gas CS/mcf*

July Contract

June 16, 2006	$8.15
June 9, 2006	$6.97

*Estimate based on Nymex Futures Market Price

However, some indications of slower U.S. growth were enough to lift equity markets in the later half of the week. Crude oil prices also recovered on reports of a decline in U.S. oil inventories as refiners stepped up output to meet summer gasoline demand.

Canadian manufacturing shipments were down 1.5 per cent from last month. Also, manufacturing employment was down 70,500 jobs in May 2006 over May 2005, as manufacturing continues to struggle with the stronger Canadian dollar.

Economic Indicators Released this Week	Reference Period	Month/Previous Month	Month/Previous Year's Month	Year-to-date[1]
Consumer Price Index	**May**			
United States (1982-84=100)	202.5	0.4%	4.2%	5.2%
Manufacturing Shipments ($ Millions)	**April**			
Alberta	5,089	-3.1%	4.1%	9.6%
Canada	50,432	-1.5%	-0.1%	0.5%
New Motor Vehicle Sales	**April**			
Alberta	20,099	0.1%	5.9%	14.6%
Canada	136,724	-0.7%	-2.9%	0.9%

Source: Statistics Canada and Canadian U.S. Bureau of Labour Statistics

[1]Year-to-date 2006 compared to the same time period in 2005. For example: January-April 2006 versus January-April 2005